Summary of the Investor Protection, Auditor Reform, and Transparency Act of 2002 (Sarbanes-Oxley Act)

Public Company Accountability Oversight Board

- Establishes a five-member oversight board with investigative and disciplinary powers over auditors of publicly held companies; board is majority independent (two of five members may be CPAs), funded by publicly held companies, must adopt or establish auditing standards and is overseen by SEC.
- Board must perform annual inspections of accounting firms that audit 100 or more public companies and at least tri-annual inspections of other public company auditors.

Non-Audit Services Prohibited

- Auditors of publicly held companies are prohibited from providing the following services to an audit client:
  - Bookkeeping
  - Financial systems
  - Appraisal or valuation
  - Actuarial
  - Internal audit
  - Management or HR functions
  - Broker or dealer, investment adviser or investment banking
  - Legal services or expert services (litigation support)
  - Any other service designated by the Board

Non-Audit Services Prohibited (Continued)

- All other non-audit services, including tax, are also prohibited unless approved by the audit committee and disclosed to investors.

Other requirements for Auditors

- Auditors must keep supporting documentation (including e-mail) for five years and are subject to a maximum ten-year prison term for failure to do so.
- The audit partner in charge of the audit must be rotated every five years.
- A former audit client cannot employ auditors until one year after they last audited the company.

Audit Committees

- Only independent directors may serve on audit committees.
- Audit committees must include at least one accounting/financial expert who must be identified to the public.
- Audit committees will hire and fire auditors
- Auditors must disclose to the audit committee:
  - All critical accounting policies and practices.
  - All alternative treatments that have been discussed with management and the treatment preferred by the auditor.
  - All written material communications with management.

Audit Committees (Continued)

- Audit committees must resolve all disputes between management and the auditor.
- Audit committees will establish procedures to allow for direct communication from company employees (whistleblowers).
- Company must book all material audit adjustments

Corporate Officer Responsibilities

- Senior executives must certify financial statements (false certification punishable by fines and imprisonment not to exceed $5 million and 20 years respectively)
- Senior executives must certify to the effectiveness of internal control and the auditor must attest to that certification.
- Companies must disclose code of ethics adopted for corporate officers.

Corporate Officer Responsibilities

- It is unlawful for a company employee to mislead the auditor.
- CEO and CFO must forfeit bonuses and profits on company stock sales when earnings are restated due to securities fraud.
- Executives prohibited from receiving company loans unavailable to outsiders.
- Prohibits executives from selling company stock during blackout periods and requires insiders to report all company stock trades within two days.

New Protections and Penalties

- Broadens ability of whistleblowers to sue, prove retaliation and collect damages.
- Prohibits investment firms from retaliating against analysts who criticize clients of the firm.
- Creates a new 20-year crime for any "scheme or artifice" to defraud shareholders or for destroying, altering or fabricating records in federal investigations.

New Protections and Penalties (Continued)

- Increases CEO, CFO penalties for false statements to SEC or failing to certify financial reports to $5 million fine, 20-year prison term.
- Raises the maximum penalty for securities fraud to 25 years, for mail fraud to 20 years and for defrauding pension funds to 10 years.
- Lengthens statute of limitations on securities fraud to five years or two from discovery.
- Prevents officials facing fraud judgments from using bankruptcy to escape liability.

Lastly, New SEC Sanctions

- SEC may now prohibit individuals from serving as directors or officers of publicly held companies and associates of broker/dealers.